RECORD AND BRIEFS

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IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
PETITIONERS,

V.

LEXMARK INTERNATIONAL, INC.,
RESPONDENT.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF *AMICUS CURIAE* MITCHELL HAMLINE SCHOOL OF LAW INTELLECTUAL PROPERTY INSTITUTE IN SUPPORT OF PETITIONERS

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INTEREST OF *AMICUS CURIAE*[1]

The Intellectual Property Institute is an entity within Mitchell Hamline School of Law. The mission of the Institute is to foster and protect innovation through education, research, and service initiatives. Among its activities, the Institute advocates for the responsible development and reform of intellectual property law, including patent laws and the patent system of the United States. A purpose of the Institute is to raise issues and arguments in light of the public interest and the best interests of the patent system as a whole. The Institute has no financial interest in any of the parties to the current action.

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[1]Pursuant to Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to its preparation or submission. Additionally, counsel for both parties have consented to the filing of this brief, and their consents have been filed with the Clerk of this Court.

SUMMARY OF ARGUMENT

This Court has extensively analyzed the exhaustion of patent rights via domestic sale since the 19th Century.[2] The corresponding law reached a turning point in 1912-13, when both this Court and Congress settled on a reading of the patent statute that interprets the patent owner's rights narrowly.[3] That narrow reading has since become cemented, forming the basis for a great deal of patent law that is now settled.

The Federal Circuit's treatment of domestic exhaustion is ignorant of this history. Its treatment therefore displays predictable flaws. The Federal Circuit relies on sources that are no longer current. Other sources it misinterprets. The property-based rationale that it adopts has been expressly, definitively discarded by both this Court and Congress.

For the reasons explained herein, affirming the Federal Circuit's holding would pull apart an extensive body of modern patent law.

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[2] *See, e.g., Adams v. Burke*, 17 Wall. (84 U.S.) 453 (1873); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659 (1895); *Heaton-Peninsular Button Fastener v. Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896).

[3] *See, e.g., Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912); *Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

ARGUMENT

A. This Court has Already Discarded the Federal Circuit's View of Domestic Exhaustion

The Federal Circuit's analysis of domestic exhaustion depends on various premises. For example, the court equates the patent owner's patent right with "property" in its broad sense, characterizing the various aspects of control as "sticks in a bundle."[4] It also reads the term "authority" in section 271 of Title 35, U.S.C.,[5] as referring solely to authorizations found elsewhere in the patent statute, or stated by the patent owner expressly.[6]

These premises are invalid. As the history of domestic exhaustion shows, by the early 20th Century United States firmly settled on a conception of domestic exhaustion that is inconsistent with the Federal Circuit's reasoning.

For example, it became settled in the third quarter of the 19th Century that the patent owner's sale of a item covered by a patent would, unless expressly restricted in some way, transfer to the purchaser full title to the item. As a result, in such situations the

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[4] *Lexmark Int'l, Inc. v. Impression Prod., Inc.*, 816 F.3d 721, 741 (Fed. Cir. 2016) (*en banc*).

[5] 35 U.S.C. § 271(a).

[6] *Lexmark Int'l*, 816 F.3d at 732-734.

patent owner could not restrict the purchaser's subsequent use of the item. The patent owner also could not restrict resale, or uses by the re-purchaser.

Patent owners reacted to this development by stating such restrictions expressly.[7] They tried to impose restrictions that included the geographic location where the patented item could be used,[8] where it could be resold,[9] whether it could be reused,[10] and whether it could be use only with supplies obtained from the patent owner.[11]

Courts first disagreed whether these restrictions were effective.[12] Eventually, though, for a time a majority of decisions held that the restrictions could be enforced, even against remote re-purchasers.

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[7] *See, e.g., Mitchell v. Hawley,* 83 U.S. 544 (1872).

[8] *See, e.g., Adams v. Burke,* 17 Wall. (84 U.S.) 453 (movement and use of item by re-purchaser).

[9] *See, e.g., Keeler,* 157 U.S. 659 (movement and resale of item re-purchaser).

[10] *See, e.g., Am. Cotton Tie v. Simmons,* 106 U.S. 89 (1882) (subsequent use held impermissible reconstruction).

[11] *See, e.g., Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.,* 152 U.S. 425 (1894) (replenishment of element recited in patent claim); *Heaton-Peninsular Button Fastener,* 77 F. 288 (required purchase of unpatented supplies).

[12] *See, e.g., Adams v. Burke,* 17 Wall. (84 U.S.) 453 (movement and use of item by re-purchaser); *Keeler,* 157 U.S. 659 (movement and resale of item re-purchaser).

These early decisions reasoned that the patent owner could transfer less than full title to the item. As a result, every other re-purchaser took the same limited title, and was subject to the same restriction. The lead case in this development is acknowledged to be *Heaton-Peninsular Button Fastener*[13] an 1896 Sixth Circuit written by later-to-be Justice Lurton. In that decision, the court gave effect to a restriction requiring re-purchasers of the patented items to use the items only with unpatented supplies obtained from the patent owner.

These early decisions assumed that the patent right could be analogized to property extensively. Essentially, they permitted patent owners to impose restrictive covenants that ran with the title to patented chattel.

As one would expect, patent owners quickly and creatively explored how such restrictive covenants could be used to leverage their patent rights in the marketplace. They restricted resale price,[14] and required that users return to the patent owner for

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[13] *Heaton-Peninsular Button Fastener,* 77 F. 288.

[14] *See, e.g., Edison Phonograph Co v. Kaufmann,* 105 F. 960 (C.C.W.D. Pa. 1901); *Edison Phonograph Co. v. Pike,* 116 F. 863 (C.C.D. Mass. 1902); *E. Bement & Sons v. National Harrow Co.,* 186 U. S. 70 (1902); 186 U.S. 70 (1902) (patent defense to antitrust assertion); *Victor Talking Mach. Co. v. The Fair,* 123 F. 424 (C.C.A. 7th Cir. 1903); *National Phonograph Co. v. Schlegel,* 128 F. 733 (C.C.A. 8th Cir. 1904); *The Fair v. Dover Mfg. Co.,* 166 F. 117 (C.C.A. 7th Cir. 1908).

unpatented supplies.[15] There were even attempts to extend restrictive covenants to items that were not patented.[16]

This Court did not rule squarely on patent owners' power to impose such restrictions until 1912, when it handed down *Henry v. A.B. Dick Co.*[17] There, a majority adopted the property-based rationale, and upheld the enforcement of a restriction insisting that a patented article could be used by a re-purchaser only with unpatented supplies obtained from the patent owner.

The vitality of *Henry v. A.B. Dick Co.* was short lived. The very next term this Court effectively repudiated that decision in *Bauer & Cie.*[18] *Bauer & Cie* involved a dispute in which the patent owner

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[15] *See, e.g., Tubular Rivet & Stud Co. v. O'Brien,* 93 F. 200 (C.C.D. Mass. 1898); *Cortelyou v. Lowe,* 111 F. 1005 (C.C.A. 2d Cir. 1901); *Brodrick Copygraph Co. of New Jersey v. Roper,* 124 F. 1019 (C.C.D. R.I. 1903); *Aeolian Co. v. Harry H. Juelg Co.,* 155 F. 119 (C.C.A. 2d Cir. 1907); *Rupp & Wittgenfeld Co. v. Elliott,* 131 F. 730 (C.C.A. 6th Cir. 1904); *A.B. Dick Co. v. Milwaukee Office Specialty Co.,* 168 F. 930 (C.C.E.D. Wis. 1908); *Crown Cork & Seal Co. of Baltimore City v. Brooklyn Bottle Stopper Co.,* 172 F. 225 (C.C.E.D. N.Y. 1909), *aff'd as modified,* 200 F. 592 (C.C.A. 2d Cir. 1912); *Commercial Acetylene Co. v. Autolux Co.,* 181 F. 387 (C.C.E.D. Wis. 1910).

[16] *Dr. Miles Med. Co. v. John D. Park & Sons Co.,* 220 U.S. 373 (1911).

[17] *Henry v. A.B. Dick,* 224 U.S. 1.

[18] *Bauer & Cie,* 229 U.S. 1.

attempted to enforce a restriction that remote repurchasers not resell the patented items for less than a stated price. The patent owner relied on the same property theory that had been accepted in *Henry v. A.B. Dick Co.* Rather than agree, however, a different majority of this Court held the restriction ineffective. It refused to extend the property rationale from "use" of the patented invention, as had been the issue in *A.B. Dick,* to the right to "vend."[19] Instead, it adopted the treatment of the right to vend that had been set out in *Bobbs-Merrill*[20] in connection with the Copyright Statute.

Bauer & Cie presaged two other decisions of this Court, *Straus v. Victor Talking Machine Co.,*[21] and *Motion Picture Patents Co. v. Universal Film Co.,*[22] that followed in 1917.[23] *Motion Picture Patents Co.* in

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[19]The term "vend" was replaced by "sell" when the patent statutes were codified in 1952. *See* Patent Act of 1952, ch. 29, 66 Stat. 813 (1952).

[20]*Bobbs-Merrill Co. v. Straus,* 210 U. S. 339 (1908).

[21]*Straus v. Victor Talking Mach. Co.,* 243 U.S. (1917).

[22]*Motion Picture Patents Co. v. Universal Film Mfg. Co.,* 243 U.S. 502 (1917).

[23]*Straus v. Victor Talking Machine,* 243 U.S. 490; *Motion Picture Patents Co.,* 243 U.S. 502.

Congress weighed in at essentially the same time. In 1914 it enacted the section 3 of the Clayton Act, which prohibited tying arrangements of patented goods under some conditions. Clayton Antitrust Act of 1914, Pub.L. 63-212, sec. 3, 38 Stat. 731 (Oct. 15,

(continued...)

particular extended the rational in *Bauer & Cie* from vending to uses. In doing so it expressly rejected the property rationale at length, and overruled *A.B. Dick.*[24]

As a result of these developments, the Federal Circuit's property-based rationale is plainly incorrect. *Motion Picture Patents Co.* in particular expressly notes that the entire line of cases it extinguished, beginning with *Heaton-Peninsular Button Fastener,* had been based on a property analysis. It then rejects that analysis as "defect[ive]."[25] Post-sale restrictions, if any, can be imposed by the patent owner only by contract, and therefore only on persons with whom the patent owner has contracted.

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[23](...continued)
1914), codified at 15 U.S.C. § 14.

[24]Because of the timing of these events, the treatment of patent exhaustion by Professor Robinson, in his treatise William C. Robinson, The Law of Patents for Useful Inventions (1890), is not very useful. Although his work is influential on other topics, it is too early to reflect the later changes in the law on patent exhaustion. *Compare, e.g., Lexmark Int'l,* 816 F.3d at 732-33 (relying on Robinson).

[25]*Motion Picture Patents Co.,* 243 U.S. at 514 ("The defect in this thinking springs from the substituting of inference and argument for the language of the statute, and from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract, which, however, are subject to the rules of general, as distinguished from those of the patent, law.").

This same history also proves that the Federal Circuit's analysis of section 271 is incomplete. Through *Bauer & Cie, Motion Picture Patents Co.*, and the decisions that have followed them, this Court has established that purchasers have "authority" to utilize the patent owner's goods under the general principle that permits unrestricted use of acquired chattel. Under the statute, the patent owner's rights to prohibit the invention from being "ma[de]", "us[ed]", or "s[old]" are only specific exceptions to that authority. Once the patent owner declines to exercise these permissions, he has no other patent rights to enforce.

B. Affirming the Federal Circuit Would Undermine a Great Deal of Settled Law

Later decisions of this Court have built extensively on the analysis of *Bauer & Cie, Straus v. Victor Talking Machine,* and *Motion Picture Patents Co.* For example, those later decisions detail when contracts by the patent owner, attempting to impose post-transfer restrictions, are unenforceable.[26] In addition, those decisions also permit third parties to raise the patent owner's post-transfer misconduct vicariously, thus

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[26] *See, e.g., Boston Store Co. v. Am. Graphophone Co.*, 246 U.S. 8 (1918); *U.S. v. General Electric Co.*, 272 U.S. 476 (1926); *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938); *Ethyl Gasoline Corp'. v. U.S.*, 309 U.S. 436 (1940); *U.S. v. Masonite Corp.*, 316 U.S. 265 (1942); *U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942).

creating the defense of patent misuse.[27] Thus, the entire body of law relating to patent misuse can be said to depend on rejecting the Federal Circuit's property-based rationale.

This is particularly significant because Congress has expressly approved the general principle of patent misuse. Section 282 of the statute, which lists the defenses available to be pled in an action for patent infringement, expressly mentions unenforceability.[28] Congress added this term during deliberations on the Patent Act of 1952 specifically to ensure that the defense of patent misuse would continue to be available.[29]

The decision of this Court on which the Federal Circuit places much reliance, *General Talking Pictures Corp. v. Western Electric Co.*,[30] is not to contrary. That decision, as well as *United States v. General Electric Co.*,[31] stand for the unremarkable proposition that a party, with whom the patent owner cooperates to

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[27] *See, e.g., Carbice Corp. of Am. v. Patents Dev. Corp.*, 283 U.S. 27 (1931).

[28] 35 U.S.C. § 282.

[29] *See, e.g.*, Rich, Giles S., Address to the New York Patent Law Association, November 6, 1952, reprinted in 75 J. Pat. Tm. Off. Soc'y. 3, 22 (1993).

[30] *General Talking Pictures Corp.*, 304 U.S. 175, opinion on rehearing at 305 U.S. 124.

[31] *United States v. General Electric*, 272 U.S. 476.

supply patented goods to the marketplace, is to be treated together with the patent owner as a single entity for determining whether exhaustion has occurred. Thus, in *General Talking Pictures,* the patent owner and another who had acted as the patent owner's foundry, were allowed together to impose post-transfer restrictions by contract one who purchased from the foundry. Similarly, in *U.S. v. General Electric,* a patent owner who had out-sourced to another the marketing of the patent owner's own products was allowed to impose post-transfer restrictions on one who had dealt with the marketer directly. Pointedly, neither decision provides justification for abandoning the rationale in *Bauer & Cie* and *Motion Picture Patents Co.,* and returning to a theory that permits post-transfer restrictions under a property rationale.

CONCLUSION

For the forgoing reasons, the Institute respectfully submits that the portion of the Federal Circuit's decision addressing domestic exhaustion be reversed.

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